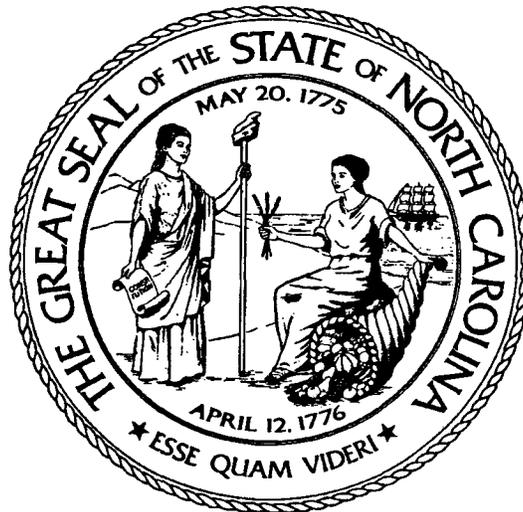


**LEGISLATIVE
RESEARCH COMMISSION**

**PUBLIC EMPLOYEES' DAY CARE AND
MEDICAL AND DENTAL BENEFITS**



**REPORT TO THE
1991 GENERAL ASSEMBLY
OF NORTH CAROLINA
1991 SESSION**

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STATE OF NORTH CAROLINA
LEGISLATIVE RESEARCH COMMISSION
STATE LEGISLATIVE BUILDING
RALEIGH 27611



December 14, 1990

TO THE MEMBERS OF THE 1991 GENERAL ASSEMBLY:

The Legislative Research Commission herewith submits to you for your consideration its final report on public employees' day care, medical, and dental benefits. The report was prepared by the Legislative Research Commission's Committee on Public Employees' Day Care and Medical and Dental Benefits pursuant to Section 2.1 of Chapter 802 of the 1989 Session Laws.

Respectfully submitted,

Handwritten signature of Josephus L. Mavretic in cursive script.

Josephus L. Mavretic
Speaker

Handwritten signature of Henson P. Barnes in cursive script.

Henson P. Barnes
President Pro Tempore

Cochairmen
Legislative Research Commission

1989-1990

LEGISLATIVE RESEARCH COMMISSION

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Rep. J. Fred Bowman

Rep. Harold J. Brubaker

Rep. James W. Crawford, Jr.

Rep. John W. Hurley

President Pro Tempore of
the Senate
Henson P. Barnes, Cochair

Senator Ralph A. Hunt

Senator Donald R. Kincaid

Senator Robert L. Martin

Senator Lura S. Tally

Senator Russell G. Walker

PREFACE

The Legislative Research Commission, established by Article 6B of Chapter 120 of the General Statutes, is a general purpose study group. The Commission is co-chaired by the Speaker of the House and the President Pro Tempore of the Senate and has five additional members appointed from each house of the General Assembly. Among the Commission's duties is that of making or causing to be made, upon the direction of the General Assembly, "such studies of and investigations into governmental agencies and institutions and matters of public policy as will aid the General Assembly in performing its duties in the most efficient and effective manner" (G.S. 120-30.17(1)).

At the direction of the 1989 General Assembly, the Legislative Research Commission has undertaken studies of numerous subjects. These studies were grouped into broad categories and each member of the Commission was given responsibility for one category of study. The Co-chairs of the Legislative Research Commission, under the authority of G.S. 120-30.10(b) and (c), appointed committees consisting of members of the General Assembly and the public to conduct the studies. Co-chairs, one from each house of the General Assembly, were designated for each committee.

The study of public employees' day care, medical, and dental benefits was authorized by Section 2.1 of Chapter 802 of the 1989 Session Laws (1989 Session). That act states that the Commission may consider the original bill or resolution in determining the nature, scope and aspects of the study. The relevant portions of Chapter 802 are included in Appendix A.

The Legislative Research Commission grouped this study in its Government Employees Benefits area under the direction of Representative James W. Crawford, Jr. The Committee was chaired by the Honorable Wanda Hunt and Representative Milton F. "Toby" Fitch, Jr. The full membership of the Committee is listed in Appendix B of

this report. A committee notebook containing the committee minutes and all information presented to the committee is filed in the Legislative Library.

COMMITTEE PROCEEDINGS

The Legislative Research Commission study committee on Public Employees' Day Care and Medical and Dental Benefits met four times after the conclusion of the 1989 legislative session and twice after the 1990 Short Session. The Committee investigated each of the three subject areas, were briefed on the issues and concerns, and identified possible courses of action to be taken to address or improve the current situation.

January 11, 1990 Meeting

The Committee held its first meeting and focused primarily on the State's existing health and medical benefits program for teachers and State employees. Discussion touched briefly on the recently approved day care-related benefit under House Bill 1129, Dependent Care Assistance Program, and its potential impact on State employees. The Committee reviewed several bills (HB 1059, State Employee Infertility; HB 1314, Flexible Benefits Plan; SB 281, Child Health Insurance) that were proposed during the 1989 session and appeared pertinent to its work.

The Committee heard an update on the State's Comprehensive Major Medical Plan which included a discussion of how the proposed flexible benefits program would tie in with the existing major medical plan. Other major issues explained were current prescription drug costs and a 1988 recommendation which would have resulted in an annual savings of approximately \$10 million to the Plan; the Costwise Program, which functions similarly to a preferred provider organization; and the claims processing procedure and service time. The meeting concluded with a brief discussion of several of the future concerns and problems with which the Plan may be confronted.

February 1, 1990 Meeting

At its second meeting, the Committee continued its data collection efforts. It received further information on specific benefits under the existing State Health Plan such as the cost and feasibility of providing maternity care coverage for dependents on the Plan.

The Committee received information outlining the experience of several states with the prescription drug reimbursement alternatives of mail order and drug card programs. The State Health Plan staff explained the mail order program recommendation submitted to the Legislative Committee on Employee Hospital and Medical Benefits.

Presentations were heard on the State's current voluntary group dental program and on a 1988 proposed program which would require mandatory participation by all employees, include orthodontia benefits, and have the State pay a portion, if not all, of the premium costs.

March 15, 1990 Meeting

Having received an overview of the State's existing prescription drug reimbursement program and medical and dental benefits, the Committee heard formal presentations addressing specific options in the drug reimbursement and dental care areas. The Pharmacy Network of North Carolina outlined a prescription drug card proposal which would use an employee identification card and include over 1500 pharmacies throughout the State. An American Managed Care Pharmacy Association representative presented general information on home-delivered pharmacy service (mail order pharmacy) operations, procedures, and practices.

The North Carolina Dental Society addressed the subject of direct reimbursement of dental care costs, provided general information on dental care, and outlined the most effective structure for dental insurance plans. A representative of Delta Dental, a

national, not-for-profit organization of pre-paid dental care, described a direct reimbursement plan and explained how it would function for a large employer such as the State.

The Committee also began its exploration of the issue of day care for State employees. It heard figures on the numbers of working mothers, received a general assessment of day care needs in the State, and reviewed the State Employees Day Care Center Task Force Proposal. A number of various program options were presented to show the Committee the trend in employer-sponsored day care and to give an idea of the types of program efforts being made today.

Information from 12 southeastern states comparing the health plans, state versus employee contributions to such plans, and retiree benefits was presented. Other data included the results of an Office of State Personnel survey, the average benefit paid as a percentage of salary per State employee, and a summary of the value of total benefits received by each State employee.

April 12, 1990 Meeting

The Committee heard the position of the State Employees Association (SEANC) in regard to the issues under study. The North Carolina Association of Educators, Inc. (NCAE) presented statewide survey results showing the number of school districts which provide dental coverage.

The Committee received reports of 13 other states on their experiences in using prescription drug card and/or mail order pharmacy programs.

Cost estimates in each subject matter area were presented and discussed: The Pharmacy Network of North Carolina supplied figures showing a projected savings of \$12.1 million with a prescription drug card program; A 1989 actuarial note from Mercer-Meidinger-Hansen, Inc. estimated savings of \$9.8 million with the inclusion of

a mail order pharmacy program; Another actuarial note done in 1988 showed that the minimum cost of a full participation dental insurance plan would be \$26.5 million; In the 89-90 fiscal year, a \$500,000 capital improvements appropriation was requested to cover the construction and start-up costs of a 7100 square foot day care facility on state-owned land.

A discussion of the dependent care assistance program led the Committee to try to fashion an alternative measure to ease the stress and difficulty in securing affordable, convenient day care. Although there was substantial interest in proposing some step or action to encourage State agencies to take the initiative in the day care area, the Committee concluded that a report to the Short Session would not meet the required time considerations.

October 16, 1990 Meeting

At its first gathering after completion of the Short Session, the Committee received an update on its work to date and reviewed the issues in each substantive area to determine options and possible courses of action. The Committee was informed that the July, 1990, General Fund analysis projected revenue shortfalls for the next four fiscal years.

Updated figures from the State Health Plan now estimated the cost of providing dental benefits to be \$37 million for the nine-month period of October 1, 1991 through June 30, 1992.

SEANC reported on the positions adopted at its annual convention and provided substantial information on day care program alternatives and practices in other states. The Committee voted unanimously to propose legislation which would grant departments and agencies the authority to use State office buildings, promote creativity,

and encourage the development of cooperative arrangements which establish day care programs for employees, within current budgetary allotments.

The Committee considered the issue of increasing the current cap on lifetime hospitalization benefits from \$500,000 to one million dollars. In the area of prescription drug options, the Committee requested more, yet specific, information on potential savings per option and illustrations of the effects of higher co-payments and deductibles.

November 12, 1990 Meeting

During its last substantive meeting, the Committee discussed in detail the question of the best method of accessing potential savings in the State Plan's prescription drug benefit. Six companies submitted tentative program proposals which estimated the corresponding savings which ranged from a minimum of \$4.5 million to a maximum of \$16.4 to 26.1 million, with the average projected savings being approximately \$10 million. The Committee strongly recommended that appropriate steps be taken to realize the savings in the current prescription drug benefit.

The State Health Plan staff informed the Committee of the funding needs for the biennium which were presented to the Advisory Budget Commission. The proposed rate increases and adjustments in deductible and copayment levels were discussed at length.

The Committee also revisited the issue of increasing the maximum lifetime health care benefit from \$500,000 to one million dollars. It concluded that all of the health plan benefits issues involving possible cost increases and/or reduced coverage levels should be reviewed and addressed collectively by a task force. The task force would be comprised of assigned committee members and representatives from the NCAE and

SEANC. The group would examine each assigned issue in greater detail and present its findings and recommendations to the 1991 Session.

After going over the draft day care legislation, the Committee reviewed the draft committee report. As its last business of the day, the Committee formulated its findings and recommendations in each of the three substantive areas.

November 30, 1990 Meeting

The Committee reviewed, edited, and approved the draft final report which includes a legislative proposal encouraging State agencies to develop day care facilities for employees. Due to Legislative Research Commission restrictions governing its appointed committees and any sub-groups they may form, the Committee retooled the task force recommendation from its last meeting. The question of mail order as a cost savings option was added to the list of health issues to be examined further and considered as a total package. The Committee added one final recommendation for the LRC to empower a similar committee to continue reviewing and monitoring public employees' benefits.

FINDINGS AND RECOMMENDATIONS

The Committee on Public Employees' Day Care and Medical and Dental Benefits heard much testimony in regard to the conditions, concerns and issues of each of its three substantive areas. Based on the study of these areas, the Committee offers the following findings and recommendations:

Day Care Services for Teachers and State Employees

The Committee found that over half the other states have some level of on- or near-site child day care program in place for employees and felt that North Carolina needed to begin to take steps in that direction even during this lean fiscal time. The Committee felt that it would be advantageous to provide a mechanism which would (1) encourage agencies in developing and implementing creative measures and (2) provide the necessary statutory authority to enter into cooperative agreements and ventures. It concluded that the encouragement and enabling mechanism should be presented in the form of proposed legislation.

This recommendation is incorporated in the draft bill labelled as Legislative Proposal I located in Appendix D of this report.

Medical Benefits

The Committee found that, as far as the trend of increasing costs, the State Health Plan was no different from other health insurance programs around the country. A growing portion of the Plan's annual cost is the expense of the prescription drug program. The \$44.5 million for the 1989-90 fiscal year represented a 32 percent increase above the \$33.7 million spent during the 1988-89 year. Based on the data

presented, the Committee concluded that savings could be gained through the use of an alternative prescription drug program.

In regard to prescription drugs, the Committee strongly recommends that the legislative Committee on Employee Hospital and Medical Benefits take appropriate action which results in the realization of cost savings in the prescription drug benefit of the State Health Plan. Although savings can be realized through the use of a mail order pharmacy option, the Committee recommends the development of a program with present in-state pharmacies as an acknowledgment of the concern to have money turning over within North Carolina communities.

In regard to specific issues and benefit levels in the State Health Plan, the Committee found that the following issues should be reviewed in detail, with input from representatives of the SEANC and NCAE, as a packaged group:

1. Encouraging generic use; Consider requiring employees to pay the difference, if a generic is available and they request or receive the brand name drug instead of its generic form.
2. Levels of deductibles and copayments;
3. Costwise Program;
4. Feasibility and practicality of using a sliding scale of charges;
5. Increasing the current lifetime hospitalization benefit cap from its present \$500,000 level; and
6. The possible inclusion or use of a mail order pharmacy option to access the potential savings in the prescription drug area.

Benefits Study Committee

The Committee strongly recommends that the Legislative Research Commission empower a study committee similar to the Committee on Public Employees' Day Care and Medical and Dental Benefits to continue the review of public employees' benefits.

Dental Benefits

The Committee found that a full participation (not voluntary) dental program in which all employees are enrolled is the most successful. Premiums for such plans usually are paid by the employer. The cost of providing this type of program for State employees would be \$37 million for the first nine months.

Although the State's current plan is voluntary and paid by the employee, the Committee recognized the need that it meets for participating employees. Given the option to have premiums taken out of pre-tax dollars beginning January 1, 1991, as provided by Chapter 1059 (House Bill 1314), the Committee concluded that this would enhance the current dental benefit by reducing the employee's net out-of-pocket expenses.

The Committee, therefore, recommends no changes in the State's present dental program.

APPENDIX A

GENERAL ASSEMBLY OF NORTH CAROLINA
1989 SESSION
RATIFIED BILL

CHAPTER 802
SENATE BILL 231

AN ACT TO AUTHORIZE STUDIES BY THE LEGISLATIVE RESEARCH COMMISSION, TO CREATE AND CONTINUE VARIOUS COMMITTEES AND COMMISSIONS, TO MAKE APPROPRIATIONS THEREFOR, AND TO DIRECT VARIOUS STATE AGENCIES TO STUDY SPECIFIED ISSUES.

The General Assembly of North Carolina enacts:

PART I. TITLE

Section 1. This act shall be known as "The Studies Act of 1989."

...

ART II.-----LEGISLATIVE RESEARCH COMMISSION

Sec. 2.1. The Legislative Research Commission may study the topics listed below. Listed with each topic is the 1989 bill or resolution that originally proposed the issue or study and the name of the sponsor. The Commission may consider the original bill or resolution in determining the nature, scope and aspects of the study. The topics are:

...

(23) Public Employees' Day Care and Medical and Dental Benefits.

...

Sec. 2.4. Committee Membership. For each Legislative Research Commission Committee created during the 1989-1991 biennium, the Cochairmen of the Commission each shall appoint a minimum of seven members.

Sec. 2.5. Reporting Dates. For each of the topics the Legislative Research Commission decides to study under this act or pursuant to G.S. 120-30.17(1), the Commission may report its findings, together with any recommended legislation, to the 1990 Session of the 1989 General Assembly or the 1991 General Assembly, or both.

Sec. 2.6. Bills and Resolution References. The listing of the original bill or resolution in this Part is for reference purposes only and shall not be deemed to have incorporated by reference any of the substantive provisions contained in the original bill or resolution.

Sec. 2.7. Funding. From the funds available to the General Assembly, the Legislative Services Commission may allocate additional monies to fund the work of the Legislative Research Commission.

...

PART XXV.-----EFFECTIVE DATE

Sec. 25.1. This act shall become effective July 1, 1989.

In the General Assembly read three times and ratified this the 12th day of August, 1989.

APPENDIX B

MEMBERSHIP OF LRC COMMITTEE ON PUBLIC EMPLOYEES' DAY CARE/MEDICAL/DENTAL BENEFITS

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APPENDIX C

THOSE MAILED NOTICES OF COMMITTEE MEETINGS

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Mr. G.C. Davis
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Department of Public Instruction
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Ms. Carolyn Honeycutt
Department of Public Instruction
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Mr. Marvin Dorman
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APPENDIX D
GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 1991

D

H-01-rp
(THIS IS A DRAFT AND NOT READY FOR INTRODUCTION)

Short Title: State Day Care Encouragement.

(Public)

Sponsors: .

Referred to:

1 A BILL TO BE ENTITLED
2 AN ACT TO ENCOURAGE STATE AGENCIES AND PUBLIC SCHOOLS TO
3 DEVELOP ON- OR NEAR-SITE DAY CARE FACILITIES FOR THEIR
4 EMPLOYEES.
5 Whereas, the General Assembly recognizes the need to encourage State agencies and
6 institutions, including public schools, to take the initiative in helping State employees
7 have quality day care for their children; and
8 Whereas, the General Assembly further recognizes that, during the present time of
9 financial stress, it is imperative that creative and resourceful ways be found to meet
10 these needs;
11 Now, therefore;
12 The General Assembly of North Carolina enacts:
13 Section 1. Chapter 143 of the General Statutes is amended by adding a new
14 Article to read:
15 "ARTICLE 3E.
16 "State/Public School Child Day Care Contracts.
17 "§ 143-64.50. State/public school-contracted on-, near-site day care facilities;
18 location authorization; contract for program services authorization.
19 State agencies and local boards of education may contract with any city, county, or
20 other political subdivision of the State, governmental or private agency, person,
21 association, or corporation to establish child day care services in State buildings and
22 public schools. If the child day care program is located in a State building that is not
23 used for legislative activity, the procedure for approving the location of the program

1 shall be pursuant to G.S. 143-341(4). If the child day care program is located in a
2 State building used for legislative activity, the procedure for approving the location of
3 the program shall be pursuant to G.S. 120-32.1. If the child day care program is
4 located in a State building, the procedure for contracting for child day care services
5 shall be pursuant to G.S. 143-49(3). If the child day care program is located in a State
6 building used for legislative activity, the procedure for contracting for child day care
7 services shall be pursuant to G.S. 120-32(4).

8 Contracts for services awarded pursuant to this section are exempt from the
9 provisions of G.S. 66-58(a) and the contract may provide for payment of rent by the
10 lessee or the operator of the facility.

11 **"§ 143-64.51. State/public school-contracted child day care facilities; licensing**
12 **requirements.**

13 All child day care facilities established pursuant to this Article shall be licensed and
14 regulated under the provisions of Article 7 of Chapter 110 of the General Statutes,
15 entitled 'Day Care Facilities.'

16 **"§ 143-64.52. State/public school-contracted child day care facilities; limitation of**
17 **State/local board liability.**

18 The operators of the child day care facilities established pursuant to this Article shall
19 assume all financial and legal responsibility for the operation of the programs and shall
20 maintain adequate insurance coverage for the facilities. Neither the operator or any of
21 the staff of the facilities are considered State employees or local board of education
22 employees by virtue of this Article alone. The State or the local boards of education
23 are financially and legally responsible only for the maintenance of the building."

24 Sec. 2. Nothing in this act shall be construed to allow the State of North
25 Carolina to expend funds to implement the provisions of this act.

26 Sec. 3. This act becomes effective July 1, 1991.

LEGISLATIVE PROPOSAL I
SECTION-BY-SECTION ANALYSIS

The bill itself establishes a new article under Chapter 143 of the General Statutes. Section 1 of the bill authorizes State agencies and local boards of education to contract with local governments, individuals, groups, agencies, corporations, or associations to establish child day care services for their employees in State buildings and public schools. The section provides that the procedure for approving the location of the program conform with that presently required in §143-341(4).

It allows the contract to provide for payment of rent by the lessee or the operator of the facility.

The bill further requires all contracted day care facilities to be licensed according to the existing statutes. It places all financial, legal, and insurance responsibilities with the operators of the facilities.

Section 2 disallows the State of North Carolina from expending any funds to implement the provisions of the act.

Section 3 makes the act effective on July 1, 1991.